



Mitchell Adams, Commissioner  
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# CITY & TOWN

A Publication of the Massachusetts Department of Revenue's Division of Local Services

## Managing the Budget Process

written by Frederick Kingsley

The budget is an estimate of the expenses to be incurred during the fiscal year and the revenues available to meet these expenses. In many communities, the combined effect of changing demographics and limited revenues makes it increasingly difficult to fund desired local government services. This, coupled with a heightened public awareness that government must be accountable for how it spends tax dollars, puts added pressure on communities to allocate and control spending effectively. In this context, the budget must be more than a list of numbers. It must clearly articulate the challenges facing a community and the programs and financial policies designed to meet these challenges. In the article that follows, we will discuss a team approach to preparing sound revenue estimates and suggest some financial policies that communities should consider during the budget process.

Responsibility for preparing the municipal budget varies across the state depending on a community's form of government. In municipalities with centralized governments, the budget is generally prepared by the executive branch (i.e., mayor, selectmen or manager). In decentralized governments, however, responsibility for budget preparation often rests entirely with the volunteer finance committee. Regardless of how your community is organized, the onset of another budget season is a good time to review financial policies and evaluate the effectiveness of your community's process.

One of the first things to look at is the manner in which financial information is collected and distributed among the town's key policy-makers. Making good financial decisions, with realistic estimates of revenues and expenditures, involves synthesizing innumerable pieces of information into the budget document. For example, court judgments, state and federal legislative changes, deficits from the prior year, or unforeseen emergency capital needs can all affect budget planning.

### *Budgets implicitly establish communities' financial policies*

With numerous boards, committees and officials each possessing a piece of the puzzle, the challenge is to implement an efficient, ongoing process to collect this information.

One approach is to establish a financial management team of key officials that will meet on a regular basis. In a centralized government, this is readily accomplished via monthly meetings of department heads convened by the administrator or manager. In a decentralized government, establishing a financial team may depend on enlisting the cooperation of many elected officials. In this environment, it may be beneficial to enact a by-law which prescribes the composition and role of the financial team. At a minimum, the team should play a strong role in developing revenue estimates, providing estimates of fixed costs (e.g., debt service,

health insurance and retirement costs) and coordinating day-to-day financial operations.

Since the passage of Proposition 2<sup>1/2</sup>, municipal budgets are revenue driven. In other words, revenue estimates must be completed as a first step to provide a frame of reference for evaluating budget requests. Once the preliminary revenue estimates are completed, they may be presented in a meeting with policy-makers (selectmen, finance committee and school committee) and other interested parties so that underlying assumptions can be reviewed and understood by all key officials. Developing consensus about the community's spending limits early on in the process will focus the debate more clearly on determining spending priorities and setting financial policies. Based on the revenue estimates, budget request guidelines can be developed

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# LEGAL

*in Our Opinion*

## Nursing Home Charitable Exemption

Can a M.G.L. Ch.156B for-profit corporation receive, under certain circumstances, a charitable exemption on real estate and personal property? The Massachusetts Appeals Court recently answered this question in the affirmative in the case of *H-C Health Services, Inc. v. Board of Assessors of South Hadley*, 42 Mass. App. 596 (1997).

The operators of two nursing homes in South Hadley applied to the assessors for exemption from local taxes for fiscal years 1992 and 1993. Exemption was claimed under M.G.L. Ch.59 Sec.5 Cl.3. That statute exempts the real and personal property of a charitable organization. The assessors denied their applications since the taxpayers were organized as business corporations under M.G.L. Ch.156B. When the taxpayer appealed to the Appellate Tax Board (ATB), total abatements were granted. The town assessors thereupon appealed the ATB decision to the Appeals Court.

The Appeals Court noted that the taxpayers operated nursing homes primarily for Medicaid patients. The plaintiffs had formed "for profit" corporations under M.G.L. Ch.156B, and all the shares of the capital stock were owned by a M.G.L. Ch.180 charitable corporation. An unusual provision of each corporate charter was the expressed intent to be entitled to exemption from federal income taxes by qualifying as a charitable corporation under Section 501(c)(3) of the Internal Revenue Code. Each corporation was, in fact, granted Section 501(c)(3) status. The corporate charters also provided that no directors or stockholders could retain any profits. Furthermore, upon dissolution, the assets could not be ap-

plied to the benefit of the directors or shareholders.

The Appeals Court analyzed the language in M.G.L. Ch.59 Sec.5 Cl.3. By its terms, the statute did not require an eligible taxpayer to be incorporated under M.G.L. Ch.180 as a charitable corporation. The court agreed with the ATB's "functional test" to determine Clause 3 eligibility, i.e., the corporate charter, the by-laws and activities must show the taxpayer qualifies as a "charitable organization." According to the Appeals Court, formation under a particular chapter of the General Laws was not controlling. More persuasive to the court was the Section 501(c)(3) charitable corporation status granted by the Internal Revenue Service to the plaintiffs.

The South Hadley assessors had argued that each corporation could change its articles of organization and by-laws to permit distributions for private benefit. The Appeals court, however, merely observed that such a distribution was not permissible at the present time. If and when that event occurred, the court reasoned there would be no further exemption from local taxes.

As a matter of law, the court held that operating a nursing home for the elderly and the infirm was the work of a charitable corporation. The formation of a business corporation to operate the nursing home did not preclude a Clause 3 charitable exemption if the corporate documents and activities evidenced the entity to be a "charitable organization."

Further appellate review was denied by the Supreme Judicial Court. ■

*written by James Crowley*

## Changes in Veterans' Exemptions

Recently, the general court reviewed the property tax exemptions for veterans (M.G.L. Ch.59, Sec.5, Cl. 22) and passed legislation which changed the exemptions, the reimbursement amounts and increased the state appropriation for these reimbursements.

Chapter 88 of the Acts of 1997 increased all Clause 22 property tax exemptions and state reimbursements for exemptions by \$75 beginning in FY98. In addition, Chapter 88 provided state reimbursement for Clause 22(a-f) exemptions for the first time. It is estimated that communities grant nearly 45,000 Clause 22(a-f) exemptions annually. To fund the increased exemption amounts through state reimbursement, the FY98 state budget (Chapter 43 of the Acts of 1997) increased the funding level for the veterans, blind, and surviving spouses reimbursement program from \$4.5 million to \$8.2 million.

The changes in the Clause 22 property tax exemptions prompted the Division of Local Services to review the reporting requirements and procedures for reimbursing communities. This review resulted in the revision of all forms submitted by local assessors for reimbursements. The Division issued an Informational Guideline Release (IGR) 97-303 in September 1997. This IGR outlined procedural changes when reporting exemptions granted by local boards of assessors and provided copies of the revised forms.

Assessors may consider increasing their overlay reserve account to allow for these additional exemptions. ■

*written by Melinda J. Ordway*

# Focus

## on Municipal Finance

### Massachusetts State Revenues and Budgetary Funds

The Massachusetts Department of Revenue will collect over \$13 billion in tax revenue in FY98. With the exception of approximately \$110 million in revenue that is passed through to Massachusetts cities and towns (including the "local option" room occupancy and jet fuel levies), virtually all this tax revenue will fund the Commonwealth's operating budget, including local aid distributions.

"Monthly Report of Tax Collections through September 30, 1997," *Table 1*, sets out DOR revenue collections for the month of September 1997 and for FY98 year-to-date, and compares those revenues to collections in the same period for FY97. The first page of *Table 1* provides a summary view of the major components of tax revenue, highlighting the most important categories: income tax (including withhold-

ing), sales and use taxes, corporate and other business excise taxes. Page one also includes FY98 full year estimates for each of these tax categories, as well as the year-to-date "benchmark range" that DOR uses to judge whether revenue collections are on track for the full fiscal year revenue estimate.

#### State Revenues

As *Table 1* indicates, in the first quarter of FY98 total tax revenue collections are exhibiting healthy growth. Through September 30, 1997, FY98 year-to-date DOR receipts were up 7.4 percent from the same period in FY97. Income tax revenues, which account for approximately 50 to 60 percent of the Commonwealth's total annual tax collections, have also increased by 7.4 percent. Within the income tax category, "tax withheld" is considered by many analysts to be the most important indicator of underlying economic activity, because it is deducted from workers' paychecks and collected weekly, making it likely that any change in employment levels will be reflected almost

immediately in withholding tax collections. Through September, income tax withholding payments were up 8.6 percent year-to-date, indicating that employment in Massachusetts continues to grow. It should be noted that September, December, March and June are important months for income tax receipts, because estimated income tax payments are due at the end of each quarter.

*Sales, meals, and use tax* collections are also considered important indicators of the state's economic health, as they reflect the growth in retail trade throughout Massachusetts. This category accounts for approximately 20 to 25 percent of state tax revenue collections. Through September 30, FY98 sales tax collections had grown by 7.7 percent, indicating that consumers continued to purchase taxable items at a good pace.

*Corporate excise tax* is the other major component of state tax, accounting for

*continued on page six ➡*

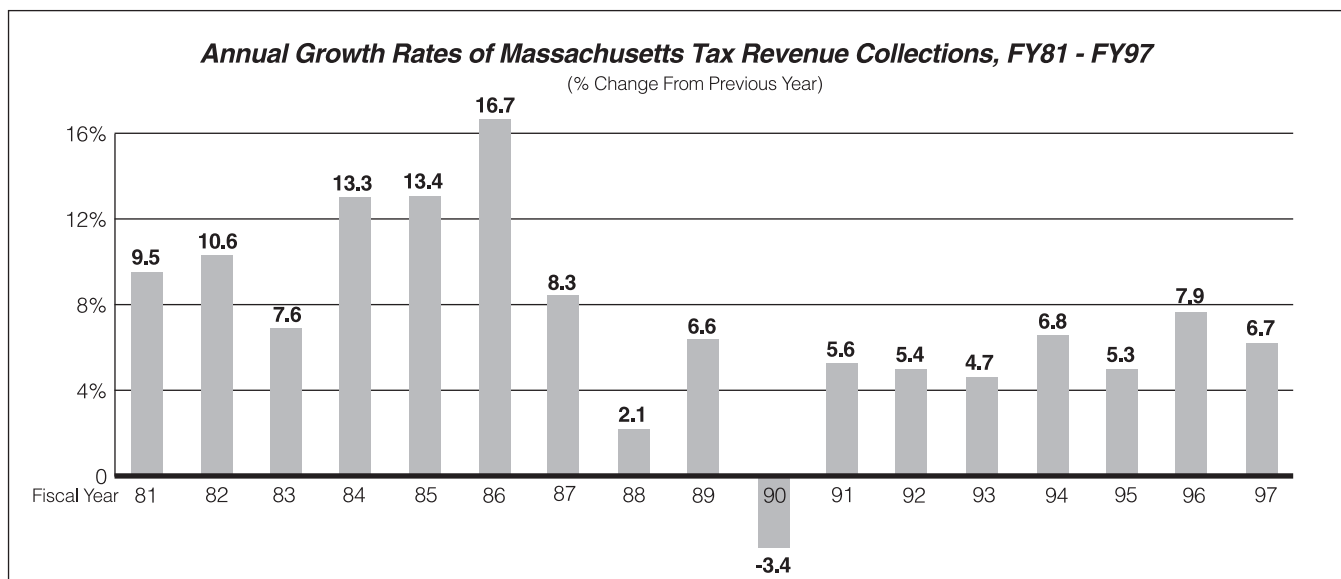


Figure 1



# Massachusetts Department of Revenue

## Monthly Report of Tax Collections through September 30, 1997

(add 000's)

Tax or Excise	September		1996 - 1997 Growth		YTD		FY97 - FY98 Growth		Year - to - Date	
	1996	1997	Amount	Percent	FY97	FY98	Amount	Percent	Estimate	Benchmark Range*
<b>TOTAL DOR TAXES FOR BUDGET</b>	\$1,276,870	\$1,374,570	\$97,700	7.7%	\$2,874,567	\$3,086,234	\$211,667	7.4%		2,892,000 - 3,080,000
<b>INCOME TAX</b>	674,111	746,771	72,660	10.8%	1,559,167	1,675,156	115,989	7.4%		
Tax Withheld	443,648	490,402	46,753	10.5%	1,329,013	1,443,821	114,808	8.6%		
<b>SALES &amp; USE TAXES</b>	224,001	245,087	21,086	9.4%	693,530	746,693	53,162	7.7%		
Tangible Property	152,780	150,389	(2,391)	-1.6%	459,305	474,509	15,204	3.3%		
<b>CORPORATION EXCISE</b>	159,834	168,548	8,714	5.5%	199,746	206,545	6,799	3.4%		
<b>BUSINESS EXCISES</b>	124,801	104,174	(20,628)	-16.5%	125,542	121,574	(3,968)	-3.2%		
<b>OTHER EXCISES</b>	94,123	109,991	15,868	16.9%	296,582	336,267	39,684	13.4%		
<b>TOTAL TAXES FOR BUDGET**</b>	\$1,278,269	\$1,376,319	\$98,050	7.7%	\$2,878,097	\$3,089,451	\$211,353	7.3%	\$12,861,094	\$13,060,000
<b>OTHER DOR REVENUE</b>	\$8,243	\$12,544	\$4,301	52.2%	\$23,675	\$28,620	\$4,945	20.9%	\$141,147	\$143,200
Local Option Taxes: Aircraft (Jet) Fuel	1,981	1,128	(853)	-43.1%	13,788	13,453	404	3.2%	13,059	13,500
Rooms	4,088	8,609	4,521	110.6%	13,788	18,152	4,364	31.7%	55,599	55,500
Utility & Insurance Assessments	1	855	854	126383.2%	1,424	1,678	254	17.8%	3,386	3,500
Urban Redevelopment Excise	329	133	(195)	-59.4%	568	337	(231)	-40.6%	38,317	39,000
Departmental Fees, Licenses, etc.	109	280	171	156.5%	1,266	1,200	(66)	-5.2%	6,604	6,700
County Correction Fund: Deeds	574	561	(13)	-2.3%	1,949	2,048	98	5.1%	6,969	7,000
Abandoned Deposits (Bottle)	1,161	978	(183)	-15.8%	1,631	1,752	121	7.4%	17,213	18,000
<b>TOTAL TAX &amp; OTHER REVENUE</b>	\$1,286,512	\$1,388,863	\$102,351	8.0%	\$2,901,772	\$3,118,071	\$216,298	7.5%	\$13,002,241	\$13,203,200

Detail may not add to total because of rounding.

\* The benchmark range establishes the rate at which revenue should be received over the year to reach the annual estimate. The benchmarks for specific tax categories are available on a quarterly basis.

The benchmark range is for total taxes for budget.

\*\* FY97 collections are preliminary.

1996 Ads, Chapter 203, cigarette: +\$25, 15% tax on cigars, effective 10/1/96.

September Collections					Year-to-Date Collections					Fiscal Year Collections			
Tax or Excise	September 1995	September 1996	1995-1996 Growth	September 1997	1996-1997 Growth	YTD FY96	YTD FY97	FY96-FY97 Growth	YTD FY98	FY97-FY98 Growth	Actual FY97	FY98 Estimate	FY97-FY98 Growth
INCOME TAX													
Estimated Payments**	\$626,411	\$674,111	7.6%	\$746,771	10.8%	\$1,492,795	\$1,559,167	4.4%	\$1,675,156	7.4%	\$7,181,821	\$7,366,000	2.6%
Tax Withheld	231,010	255,552	10.6%	277,890	8.7%	277,356	314,187	13.3%	352,512	12.2%	1,400,759	1,417,000	1.2%
Returns & Bills	404,843	443,648	9.6%	490,402	10.5%	1,249,934	1,329,013	6.3%	1,443,821	8.6%	5,794,941	6,100,000	5.3%
Refunds**	13,420	14,918	11.2%	19,913	33.5%	41,519	42,003	1.2%	50,736	20.8%	819,626	674,000	-17.8%
	22,862	40,007	75.0%	41,433	3.6%	76,014	126,036	65.8%	171,913	36.4%	833,505	825,000	-1.0%
SALES & USE TAXES													
Tangible Property	\$199,256	\$224,001	12.4%	\$245,087	9.4%	\$632,409	\$693,530	9.7%	\$746,893	7.7%	\$2,876,066	\$2,987,000	3.9%
Services	127,375	152,780	19.9%	150,389	-1.6%	412,568	459,305	11.3%	474,509	3.3%	1,921,150	2,008,000	4.5%
Meals	10,948	6,418	-41.4%	20,050	212.4%	32,927	32,970	0.1%	50,977	54.6%	166,550	176,000	5.7%
Motor Vehicles	31,290	31,018	-0.9%	37,032	19.4%	95,881	96,374	0.5%	106,185	10.2%	381,364	390,000	2.3%
	29,642	33,764	14.0%	37,616	11.3%	91,034	104,882	15.2%	115,022	9.7%	407,002	413,000	1.5%
CORPORATION EXCISE													
Estimated Payments**	\$190,498	\$159,834	-16.1%	\$168,548	5.5%	\$963,873	\$199,746	-79.3%	\$206,545	3.4%	\$963,873	\$911,000	-5.5%
Returns	159,143	155,748	-2.1%	167,706	7.7%	965,040	212,360	-78.0%	235,144	10.7%	965,040	870,000	-9.8%
Bill Payments	42,783	13,289	-68.9%	31,806	139.3%	389,046	37,803	-90.3%	58,591	55.0%	389,046	390,000	0.2%
Refunds**	2,644	1,058	-60.0%	837	-20.9%	25,810	6,008	-76.7%	5,457	-9.2%	25,810	27,000	4.6%
	14,072	10,261	-27.1%	31,800	209.9%	416,023	56,425	-86.4%	92,647	64.2%	416,023	376,000	-9.6%
BUSINESS EXCISES													
Insurance Excise	\$133,948	\$124,801	-6.8%	\$104,174	-16.5%	\$143,848	\$125,542	-12.7%	\$121,574	-3.2%	\$538,725	\$612,000	13.6%
Estimated Payments**	\$72,115	\$65,792	-8.8%	\$71,950	9.4%	\$73,777	\$68,358	-7.3%	\$73,261	7.2%	289,272	300,000	3.7%
Returns	73,117	65,407	-10.5%	72,286	10.5%	74,694	68,357	-8.5%	73,372	7.3%			
Bill Payments	171	386	125.9%	105	-72.7%	208	558	167.8%	682	22.3%			
Refunds**	0	2	1034.3%	3	19.7%	105	14	-86.2%	15	1.9%			
	1,173	4	-99.7%	443	12475.3%	1,230	572	-53.5%	808	41.4%			
Public Utility Excise													
Estimated Payments**	\$17,512	\$24,726	41.2%	\$8,217	-66.8%	\$17,621	\$26,605	51.0%	\$15,128	-43.1%	109,220	122,000	11.7%
Returns	22,544	27,960	24.0%	9,677	-65.4%	22,795	29,842	30.9%	16,638	-44.2%			
Bill Payments	14	3	-76.1%	94	2671.4%	35	9	-73.3%	114	1126.6%			
Refunds**	0	0	NA	0	NA	12	0	-97.5%	83	27070.6%			
	5,046	3,237	-35.8%	1,554	-52.0%	5,221	3,247	-37.8%	1,707	-47.4%			
Commercial Bank Excise													
Estimated Payments**	\$24,198	\$26,001	7.4%	\$23,249	-10.6%	\$29,089	\$14,263	-51.0%	\$29,626	107.7%	\$98,984	\$127,000	28.3%
Returns	42,628	23,583	-44.7%	24,923	5.7%	50,341	26,580	-47.2%	31,042	16.8%			
Refunds**	4,917	4,434	-9.8%	435	-90.2%	4,943	4,632	-6.3%	889	-80.8%			
Bill Payments	0	0	NA	0	NA	0	8	95479.8%	17	113.3%			
Refunds**	23,347	2,016	-91.4%	2,109	4.6%	26,195	16,958	-35.3%	2,321	-86.3%			
Savings Institution Excise													
Estimated Payments**	\$20,123	\$8,283	-58.8%	\$757	-90.9%	\$23,360	\$16,317	-30.1%	\$3,560	-78.2%	\$41,249	\$63,000	52.7%
Returns	26,669	10,463	-60.8%	3,875	-63.0%	35,960	21,806	-39.4%	11,105	-49.1%			
Refunds**	(387)	328	184.7%	423	29.0%	846	2,946	248.4%	1,237	-58.0%			
Bill Payments	7	0	-100.0%	0	NA	22	44	97.2%	0	-100.0%			
Refunds**	6,165	2,508	-59.3%	3,540	41.1%	13,467	8,479	-37.0%	8,782	3.6%			
OTHER EXCISES													
Alcoholic Beverages	\$112,852	\$94,123	-16.6%	\$109,991	16.9%	\$313,584	\$296,582	-5.4%	\$336,267	13.4%	\$1,277,138	\$1,160,700	-9.1%
Cigarette	5,144	4,042	-21.4%	4,689	16.0%	15,308	14,815	-3.2%	15,820	6.8%	60,302	60,000	-0.5%
Deeds	20,124	14,081	-30.0%	22,161	57.4%	61,076	51,798	-15.2%	75,608	46.0%	281,708	285,000	1.2%
Estate & Inheritance	3,993	4,061	1.7%	3,882	-4.4%	12,167	13,765	13.1%	14,092	2.4%	48,332	49,000	1.4%
Motor Fuels	14,406	13,008	-9.7%	13,249	1.9%	40,372	44,812	11.0%	44,822	-0.4%	202,707	78,000	-61.5%
Room Occupancy	60,511	52,187	-13.8%	53,446	2.4%	162,252	150,713	-7.1%	159,796	6.0%	602,841	608,000	0.9%
Miscellaneous	8,654	6,732	-22.2%	12,545	86.3%	22,369	20,655	-7.7%	26,277	27.2%	80,544	80,000	-0.7%
	20	11	-44.0%	18	55.2%	41	24	-41.1%	51	109.9%	706	700	-0.8%
TOTAL DOR TAXES FOR BUDGET	\$1,262,964	\$1,276,870	1.1%	\$1,374,570	7.7%	\$3,546,509	\$2,874,567	-18.9%	\$3,086,234	7.4%	\$12,837,623	\$13,036,700	1.6%

Details may not add to total because of rounding.

\*\*Income Tax estimated payments and refunds include all credits to estimated payments.

September 1996 \$29,876 YTD FY97 \$99,987 TOTAL FY97 \$139,836

September 1997 \$23,732 YTD FY98 \$74,558

Corporation and business excises estimated payments and refunds include all credits to estimated payments as of January 1991.

Table 1 (Please note that each Monthly Report of Tax Collections is available on the Department of Revenue website at www.state.ma.us/dor)

## Massachusetts State Revenues and Budgetary Funds

→ continued from page three

between 5 to 10 percent of total state tax collections. The corporate excise reflects the health of the business sector of the economy, since the tax is dependent upon the level of corporate profits. As with the personal income tax, the September, December, March and June quarters are important bellwethers, since corporate estimated payments are due in those months.

*Business and other excise taxes*, as well as taxes collected by other state agencies, account for the remaining 14 percent of total state tax collections. The most important of these taxes in dollar terms are the motor fuels tax (\$602 million), generated primarily from a 21 cent tax on gasoline purchases, and the excise tax on insurance companies, which generates approximately \$300 million.

The September report shows that in FY98 tax collections have increased at a rate greater than the estimate for the full fiscal year, which calls for annual growth of 1.5 percent over FY97. On October 15, 1997, to reflect the higher than projected collections, the Secretary of Administration and Finance raised the FY98 tax revenue estimate by \$140 million.

## Budgetary Funds

The first page of each monthly report (*Table 1*) also breaks out revenue collections by budgetary fund. All state revenues are deposited in one of the Commonwealth's funds (of which there are more than 40), and all state expenditures are charged to those same funds. As the September report shows, most (94 percent) of state tax revenues collected are deposited in the General and Local Aid funds. The income, sales, and corporate taxes are allocated 60 percent to the General Fund (to which is charged general government expenditures) and 40 percent to the Local Aid Fund (which pays for local aid and education distributions to cities and towns, as well as other state expenditures that benefit localities). Motor fuels tax revenues are the main source for deposits to the Highway Fund, which is used to pay for highway construction, maintenance and debt service on highway related borrowings. In Massachusetts state finance terms, the General, Local Aid and Highway funds are known as the "three major funds," and these are three funds that the Commonwealth is required to balance at the end of each

fiscal year.

Of the remaining \$239 million in tax revenues that are deposited in funds other than the General, Local Aid, and Highway Funds, the bulk is made up of the cigarette tax, approximately \$200 million of which pays for anti-smoking and health care programs, and the room tax, approximately \$30 million of which funds tourism promotion activities.

The growth in FY98 Massachusetts tax revenue receipts is a continuation of a trend. While recent growth has been well below the rates seen in the early to mid 1980's (*Figure 1*), since FY91 state tax revenue collections have grown between 4.8 percent and 7.9 percent, with FY97 collections 6.7 percent above FY96. Since FY90, revenue has increased from \$9.0 billion to \$12.9 billion as indicated in *Figure 2*. Much of the revenue growth has been allocated to cities and towns, in the form of increased education and other local aid. These increases have occurred despite the 21 tax cuts that have been implemented since FY91, which have reduced Massachusetts tax collections by over \$1.2 billion dollars. ■

written by DOR's Office of Tax Policy Analysis

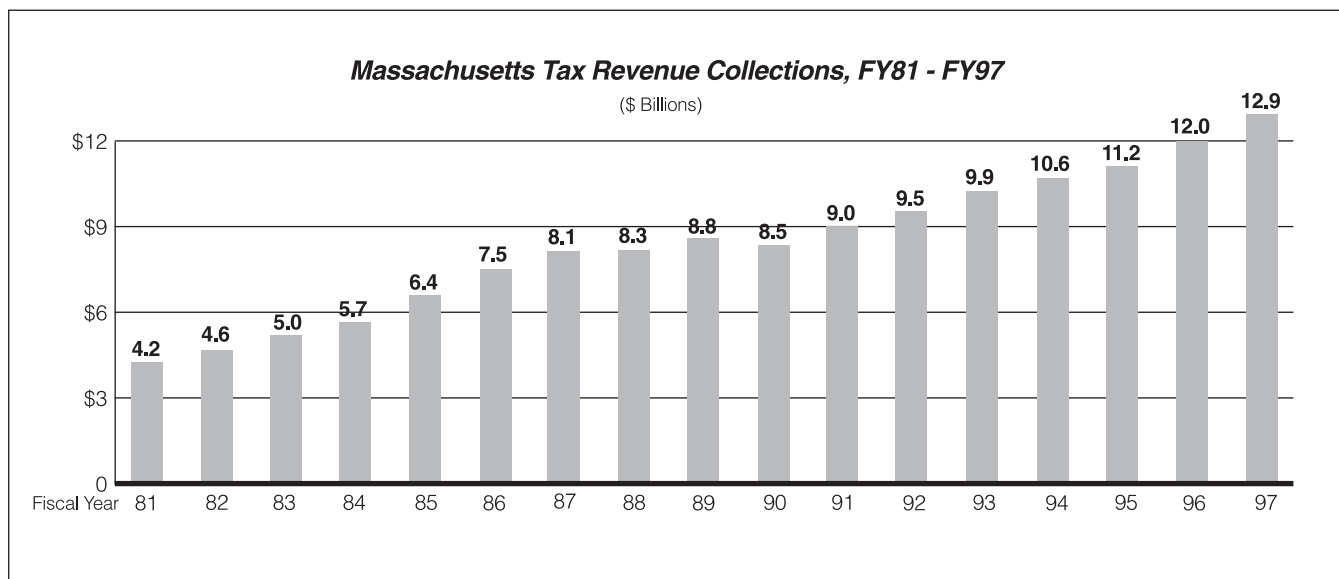


Figure 2

# DLS UPDATE

## Bruce Stanford Honored

Bruce H. Stanford, Tax Counsel in the Property Tax Bureau of the Division of Local Services, has received two prestigious awards for his participation and leadership in the state's Regulation Review Project. The Governor's Pride in Performance Award Program on October 9 recognized Bruce for his leadership in developing a "how to" guide to writing regulations and his contribution to the review of over 20,000 pages of Massachusetts regulations.

Pride in Performance awards are given to public employees who make meaningful contributions that distinguish them from their peers. These special awards focus attention on consistent, positive achievement by both individuals and teams.

As a member of the Regulation Review Project Team, Bruce also received a

Manual Carballo Governor's Award for Excellence in Public Service. This award is given to dedicated and innovative employees who "represent the key ideals of government and strive for the highest standards of service for the people of Massachusetts." In a period of less than a year, 22 percent of the original 1600 regulations within the Code of Massachusetts Regulations were eliminated and another 49 percent were significantly decreased. (For additional information see "Cutting Red Tape - Executive Order 384." *City & Town*, Vol. 10, No. 6, July/August 1997:1.) ■

## DLS Welcomes Jean McCarthy

Jean McCarthy has rejoined the Division of Local Services as Executive Assistant to Deputy Commissioner Joseph Chessey. Jean's primary responsibilities include assisting the Deputy Commissioner and oversee-

ing media interaction, public information and training programs. Jean expressed pleasure at once again being able to work directly on local government issues.

Most recently, Jean was an appraisal officer at the Massachusetts Housing Finance Agency where, in addition to her appraisal responsibilities, she coordinated a training program in real estate appraisal. From 1980 to 1990 Jean was at the Division of Local Services serving first as special projects coordinator and then as the training coordinator. Under her leadership, the 101 Course for local assessors, the course for assessor's clerks, the course for tax collectors, and the course for treasurers were developed as well as training manuals. She also coordinated the development of a number of special workshops such as "What's New in Municipal Law." ■

## → continued from page one Managing the Budget Process

to provide parameters to guide department heads in preparing their budgets.

Since the budget allocates scarce resources among many competing needs, it implicitly establishes the community's financial policies. However, in a good budget, these financial policies are stated clearly and explicitly so that those reviewing the budget can readily understand, discuss and debate these policies. Preparing written financial policies that can be applied and refined for use in future years provides a solid framework for budget decisions and promotes continuity in the planning and budgeting process. This approach is advantageous since government decisions are often based on the long-term with projects and initiatives spanning several years or benefiting future generations.

There are several areas where financial policies make sense. Communities should consider policies regarding the level of free cash and stabilization fund reserves and how these reserves are to be used. For example, it is prudent to avoid using these reserves for operating expenses as they are not "recurring" revenue sources. Maintaining free cash balances in the area of three to five percent of the budget provides funding for unforeseen or emergency expenses, reduces the need for cash flow borrowing and demonstrates to bond rating agencies that a community is living within its means. Policies on the amount needed in the stabilization fund vary depending on what big ticket items need funding in future years. For example, a community may decide to build this account aggres-

sively in the years prior to a new school project to reduce the amount to be borrowed or to cushion the impact on the tax rate.

It is important to remember that financial goals should be tailored to meet a community's specific needs. If your community has little or no free cash, it is probably unreasonable to achieve a balance of five percent in one year. Similarly, a community that has deferred capital improvements will find it very difficult to devote even one or two percent of the budget for capital maintenance or to fund a capital budget. This does not mean that these financial goals are not worthwhile. Rather, these policies can be phased-in gradually so that they are realistic and achievable for your particular community. ■

## *Municipal Fiscal Calendar*

### **December 15**

**Taxpayer:** *Deadline for Applying for Property Tax Exemptions for Persons*

If tax bills are mailed after September 15, taxpayers have 3 months from the mailing date to file applications for exemptions.

**Accountant/Superintendent/School Committee: Submit Amendments to End of School Year Report to DOE**

Last filing date to impact next year's Chapter 70 State Aid.

### **December 31**

**State Treasurer:** *Notification of Quarterly Local Aid Payments on or Before December 31*

**Taxpayer:** *Deadline for Filing Application for Abatement of Motor Vehicle Excise For Prior Calendar Year*

**Water/Sewer Commissioners: Deadline for Betterments to be Included on Next Year's Tax Bill (M.G.L. Ch. 80, Sec. 13 and Ch. 83, Sec. 27)**

**Selectmen:** *Begin to Finalize Budget Recommendation for Review by Finance Committee*

**Assessors:** *Mail 3-ABC Forms to All Eligible Non-Profit Organizations*

**Collector: Deadline for Mailing Third Quarterly Tax Bill**

## *Data Bank Highlight*

### *Actual vs. Estimated Local Receipts*

The Actual vs. Estimated Local Receipts Report shows the standard local receipts reported on the tax recapitulation sheet. This report compares three years of estimated receipts to the community's actual collections, thereby allowing local officials to evaluate the accuracy of their estimates. Local receipts are a component in balancing municipal budgets. DLS uses general and recurring receipts in the calculation of the Municipal Revenue Growth Factor.

*To obtain Municipal Data Bank information contact: John Sanguinet at (617) 626-2355 for printed reports and data files; Burt Lewis at (617) 626-2358 for the On-Line Access System; or use the World Wide Web address below.*

### *City & Town*



*City & Town* is published by the Massachusetts Department of Revenue's Division of Local Services (DLS) and is designed to address matters of interest to local officials. DLS offers numerous publications on municipal law and finance, available by calling (617) 626-2300, or through the DLS World Wide Web site at <http://www.state.ma.us/dls> or by writing to PO Box 9655, Boston, MA 02114-9655.

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